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United Nations Voluntary Fund for Victims of Torture

Report of the Secretary-General

Summary

The present report is submitted in accordance with General Assembly resolutions 36/151 and 61/153, and describes the recommendations for grants to beneficiary organizations that were adopted by the Board of Trustees of the United Nations Voluntary Fund for Victims of Torture at its twenty-sixth session. The report also provides information on policy decisions adopted by the Board in implementation of the recommendations made by the Office of Internal Oversight Services (see E/CN.4/2005/55) with a view to further enhancing the activities of the Fund.

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I. Introduction

A. Submission of the report

1. The present report was prepared in accordance with the arrangements approved by the General Assembly in its resolution 36/151 of 16 December 1981, by which it established the United Nations Voluntary Fund for Victims of Torture. It presents the recommendations adopted by the Board of Trustees of the Fund at its twenty-sixth session, which was held in Geneva from 5 to 9 February 2007. The High Commissioner for Human Rights approved these recommendations on behalf of the Secretary-General. The present report complements the report on the activities of the Fund submitted to the Human Rights Council at its fourth session (A/HRC/4/66).

B. Mandate of the Fund

2. The Fund receives voluntary contributions from Governments, non-governmental organizations and individuals. In accordance with the practice established by its Board of Trustees in 1982, the Fund provides grants to non-governmental organizations that submit projects involving medical, psychological, social, financial, legal and humanitarian or other forms of assistance to torture victims and their relatives.

C. Board of Trustees

3. The Secretary-General administers the Fund through the Office of the United Nations High Commissioner for Human Rights with the advice of a Board of Trustees composed of five members acting in their personal capacity and appointed by the Secretary-General with due regard to equitable geographical distribution and in consultation with their Governments. The Secretary-General in August 2005 appointed the following members for a period of three years, renewable once: Krassimir Kanev (Bulgaria), Sonia Picado (Costa Rica), Savitri Goonesekere (Sri Lanka), Joseph Oloka-Onyango (Uganda), and Derrick Pounder (United Kingdom of Great Britain and Northern Ireland). The Board held its twenty-fifth session in Geneva from 5 to 11 April 2006 to examine applications for funding and make recommendations on grants to be allotted to beneficiary organizations for the period July 2006 to December 2007 (see A/61/226). It held its twenty-sixth session from 5 to 9 February 2007 to discuss policy issues, as a follow up to recommendation 7 (a) of the Office of Internal Oversight Services (OIOS) which called on the Board to put priority issues at the top of its agenda, especially policies regarding priority setting and impact assessment (see E/CN.4/2005/55. The Board also awarded grants to projects from priority regions identified as a result of the call for proposals launched by the Secretariat in December 2006.

D. Admissibility criteria

4. Project admissibility criteria are outlined in the Fund's guidelines. They require a project to be presented by a non-governmental organization. The

beneficiaries must be direct victims of torture and/or direct family members. Priority is given to projects providing direct assistance to torture victims. This could consist of medical or psychological assistance; help with social or financial reintegration through vocational training for victims; or legal assistance to seek redress for victims or members of their families, or process asylum-seekers' claims. Depending on the funds available, the Fund may finance projects to organize training programmes, seminars or conferences to allow health-care professionals or other service providers to exchange best practices. However, grant requests for projects involving investigation, research, studies, publications or similar activities are not admissible. The Fund can provide emergency assistance to individuals in countries where no project is receiving support. This type of request is examined according to a specific procedure outlined in the guidelines. Detailed information on the various types of assistance provided through the projects financed by the Fund, as well as their impact on beneficiaries, can be found in the report of the Secretary-General to the General Assembly at its fifty-eighth session (A/58/284, paras. 27-34).

II. Financial situation of the Fund

A. Contributions and pledges received

5. Since the last report of the Secretary General to the General Assembly on the activities of the Fund (A/61/226), the following contributions and pledges have been received. They will enable the Board to make recommendations for grants at its twenty-seventh session, to be held from 22 to 26 October 2007. Grants recommended at the next session of the Board will be disbursed in January 2008 for the year 2008.

Table 1
List of contributions and pledges received since the last report

Donors	*Amount (in United States dollars)*	*Date of receipt*
States		
Algeria	5 000	23 February 2007
Andorra	25 440	26 April 2007
Argentina	10 000	17 January 2007
	3 000	10 July 2007
Austria	82 077	8 August 2006
	87 366	20 June 2007
Belgium	65 788	11 January 2007
Canada	52 798	6 November 2006
Chile	10 000	28 July 2006
	14 982	6 July 2007
Croatia	5 000	9 February 2007
Cyprus	6 836	16 March 2007
	7 166	20 June 2007

Donors	*Amount (in United States dollars)*	*Date of receipt*
Denmark	357 782	10 April 2007
Finland	183 417	21 July 2006
France	259 403	16 February 2007
Greece	26 350	4 December 2006
Holy See	1 000	22 August 2006
Iceland	27 778	4 January 2007
Ireland	341 530	15 May 2007
Israel	5 000	2 November 2006
	5 000	10 May 2007
Kuwait	10 000	14 September 2006
Liechtenstein	8 130	13 September 2006
	8 000	9 February 2007
Luxembourg	25 940	23 February 2007
Monaco	10 000	14 March 2007
Morocco	3 000	19 October 2006
	3 000	22 February 2007
Netherlands	1 025 641	19 September 2006
Norway	164 190	1 June 2007
Republic of Korea	10 000	6 October 2006
	50 000	1 May 2007
South Africa	13 251	13 April 2007
Spain	383 540	12 October 2006
	403 226	20 June 2007
Slovenia	3 000	4 December 2006
Switzerland	40 000	30 November 2006
Venezuela (Bolivarian Republic of)	10 000	13 October 2006
Total contributions	**3 753 631**	
Pledges		
Greece	40 000	20 April 2007
Holy See	1 000	3 July 2007
Hungary	6 578	1 January 2007
United States of America	6 517 170	21 June 2007
Total pledges	**6 564 748**	

B. End of the change in the funding cycle

6. In order to implement recommendation 10 of OIOS calling for an improved funding cycle whereby support from the Fund to grantees would be "for a future

period rather than for one that has largely passed", the Board of Trustees decided to allocate grants for 18 months rather than 12 months over a three-year period, as per the table below. In addition, the Board had also considered the possibility of not providing financial support to grantees for a full year in order to readjust the funding cycle to the calendar year, thereby allowing grants to be paid in January rather than in July every year. It retained the option which it deemed would have a lesser impact on grantees.

Table 2
Grant allocation periods for the twenty-fourth through twenty-seventh sessions

Sessions of the Board	*Grant allocation period*
Twenty-fourth session: April 2005	January 2005-June 2006
Twenty-fifth session: April 2006	July 2006-December 2007
Twenty-sixth session: February 2007	January 2007-December 2007 (priority regions only)
Twenty-seventh session: October 2007	January-December 2008

7. Table 3 indicates the amounts which the Board was able to allocate in 2004 for a 12-month period, before the change in cycle began. It also indicates the amounts recommended for the years 2005, 2006 and 2007, although grants were allocated for two consecutive periods of 18 months (January 2005 to June 2006 and July 2006 to December 2007). The table includes grants which the Board recommended at its twenty-sixth session, in February 2007, for projects identified in priority regions for the year 2007, namely Africa, Asia and emerging democratic States, in particular the Commonwealth of Independent States.

8. In December 2006, the Secretariat launched a call for proposals for priority regions through the Office of the High Commissioner for Human Rights (OHCHR) field presences, human rights components of United Nations peace missions, the Office's non-governmental organizations liaison officer, regional organizations such as the Organization for Security and Co-operation in Europe and international networks of organizations working directly or indirectly with victims of torture, namely the World Organization against Torture, the International Rehabilitation Council for Torture Victims, the International Federation for Human Rights and the Association for the Prevention of Torture. As of 2007, there will no longer be a special call for proposals for priority regions. However, applications from these regions will be considered both at the February session and at the regular grant allocation session which takes place in October every year.

Table 3
Grants awarded between 2004 and 2007, by region
(Thousands of United States dollars)

	2004		*2005*		*2006*		*2007*	
	Amount	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*	*Amount*	*Percentage*
Africa	456	6.98	295.5	5.42	407.5	7.03	640	10.37
Asia	538	8.24	497.5	9.12	465.4	8.03	556	9.01
Latin American and Caribbean States	838	12.83	699	12.81	762.5	13.15	665	10.77
Eastern Europe	560.5	8.58	474	8.69	606.5	10.46	771	12.49
Western European and other States	4 140	63.38	3 489.5	63.96	3 557	61.34	3 541.5	57.37
Total allocated by the Board	**6 532.5**		**5 455.5**		**5 798.9**		**6 173.5**	
Total paid to organizations	**6 220.5**		**4 835**		**5 793.9**		**n. a.**[a]	

[a] The final amount paid in 2007 is not yet available as some grants recommended at the twenty-sixth session of the Board, in February 2007, are still pending because some pre-screening visits are still in progress. The projects concerned are from priority regions and were received in January 2007, one month prior to the meeting of the Board.

9. Thanks to the generosity of donors, the Board was able to limit the negative effect which the change to a new funding cycle could have had on grantees. As compared to 2004, the level of funding allocated decreased by only 16.5 per cent in 2005, 11.2 per cent in 2006 and 5.5 per cent in 2007, as per table 4 below. It should also be noted that until 2006, the Board recommended grants for new projects which were kept pending until a pre-screening visit took place. This practice blocked funds until the assessments were conducted and in some cases, grants had to be cancelled owing to unsatisfactory evaluations. Table 5 indicates that between 2004 and 2005, the level of grants actually paid to beneficiary organizations decreased. This was due to the change in the funding cycle, as indicated above, but also to the fact that a number of grants allocated for new projects were cancelled following unsatisfactory pre-screening visits. In order to avoid this situation in future, the Secretariat now endeavours to organize pre-screening visits prior to the Board's consideration of new projects.

Table 4
Level of funding allocated compared to 2004
(Thousands of United States dollars)

Year	*Total allocated*	*Difference compared to 2004*
2004	6 532.5	—
2005	5 455.5	-16.5%
2006	5 798.9	-11.2%
2007	6 173.5	-5.5%

Table 5
Level of grants paid compared to 2004
(Thousands of United States dollars)

Year	*Total paid*	*Difference compared to 2004*
2004	6 220.5	—
2005	4 835	-22.3%
2006	5 793.9	-6.9%

10. During that period, the Board endeavoured to implement recommendation 4 of OIOS calling for a greater geographical balance in grant allocation. Table 6 indicates the percentage of funds allocated to the respective regions in 2004 and 2007.

Table 6
Grant allocation in 2004 and 2007, percentage by region

	2004	*2007*	*Difference*
Africa	6.98	10.37	+3.39
Asia	8.24	9.01	+0.77
Latin American and Caribbean States	12.83	10.77	-2.06
Eastern Europe	8.58	12.49	+3.91
Western European and other States	63.38	57.37	-6.01

III. Twenty-sixth session of the Board of Trustees

11. The Board of Trustees held its twenty-sixth session from 5 to 9 February 2007 and made recommendations for grants for a total amount of US$ 399,000 to 13 projects in 11 countries from the priority regions it had established at its twenty-fifth session The High Commissioner for Human Rights approved these recommendations on 23 February 2007 on behalf of the Secretary-General.

12. During the session the Board discussed at length the recommendations of OIOS and adopted the following policy decisions.

Recommendation 1
More consistent application of the definition of torture

13. The Board examined a compilation of definitions of torture in international law prepared by the Secretariat. It also requested the Secretariat to work on a compilation of the jurisprudence relating to the interpretation of the definition of torture by international and regional treaty-based human rights bodies. The Board considers that it is satisfied with its application of the definition of torture and does not wish to restrict its ability to rely on the interpretation of different treaty-based human rights bodies on this issue by establishing a list of definitions. The Board has, however, requested that the Secretariat place on its web page the compilation of definitions of torture.

Recommendation 2
Clarification on treatment of family members

14. The Board confirmed the definition of family members adopted at its twenty-fifth session, in April 2006, which includes both direct family members and extended family, provided that the close relationship of the latter with the victim directly affected the family member at the time of the event.

Recommendation 6 (a)
More strategic funding formula

Recommendation 6 (b)
Multi-year funding

15. The Board considered a paper prepared by the Secretariat on these issues and requested the Secretariat to review all projects with a view to identifying a number of them at its twenty-seventh session which it might consider for multi-year funding.

16. With regard to minimum and maximum amounts, as a rule, organizations will be able to apply to the Fund for a maximum amount of US$ 200,000. The Board considered the recommendation that new projects should receive funding for only one third of their budget for the first year. While acknowledging that this recommendation may be very sound from a financial aspect, the Board is concerned that many organizations in countries where raising funds can be difficult may be unable to continue to function. It has therefore decided that projects from the group of Western European and other States would receive up to one third of their budgets while projects from other regions could generally receive a maximum of two thirds of their budgets.

Recommendation 11
Systematic and ongoing monitoring and evaluation system

17. The Board was pleased to note that all projects financed by the Fund between 2000 and 2006 had been visited, thereby completing the first cycle of on-site evaluations and concluding recommendation 11.

18. The visits conducted by the Secretariat include field missions to pre-screen new projects prior to their consideration by the Board, as well as assessments of projects once grants are paid to beneficiary organizations in order to verify that they

are spent in accordance with the guidelines of the Fund. The second type of visit is scheduled periodically every four to five years.

19. In addition to regular monitoring visits, second-generation visits have begun to be undertaken as of 2007. The Board has developed the following criteria to guide the Secretariat in this respect. The aims of these visits are to assess, inter alia:

(a) Whether the caseload of the organization financed includes recent victims of torture or victims who are seeking assistance for the first time although the torture occurred several years previously, or whether the organization assists the same beneficiaries on an ongoing basis. The Board has already requested that several organizations supported by the Fund for a number of years make a special effort to include new clients in their caseload;

(b) What the added value of the Fund's support represents and what the impact on grantees would be should it be discontinued;

(c) The capacity of the organizations to plan strategically, to cooperate with other stakeholders at the national and regional levels, as well as their ability to build the capacities of other organizations working in the area of assistance to torture victims;

(d) The organization's efforts in obtaining other sources of funding;

(e) Lessons learned in project implementation, including competitiveness as compared to other projects in the same country or region.

20. Since the twenty-sixth session of the Board, the Secretariat has conducted second-generation visits in six countries, namely Argentina, Chile, the Democratic Republic of the Congo, Kenya, Rwanda and Serbia. The findings of these visits will be presented to the Board for discussion and the elaboration of possible new policies regarding, inter alia, more strategic funding formulas and prioritization in grant allocation.

Recommendation 14
Creation of a technical adviser roster

21. The Board considers that its current composition is sufficiently broad and does not require the creation of a specific technical roster. The members of the Board already provide expertise in different relevant areas, including law and medicine. It considers the suggestion that a roster of technical advisers be made available to it as a valid one. However, it does not see the need for a roster exclusively for its use. In this respect, it will rely on the roster of experts to be established under the Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, should it require additional expertise.

22. In addition to the review of the OIOS recommendations, the Board adopted other policy decisions as set out below.

Emergency fund

23. The emergency fund should not be used for educational purposes, such as the funding of training or seminars, and should be limited to use in situations unforeseen at the time of application, such as a sudden influx of clients owing to a humanitarian crisis.

State-funded institutions

24. The Board agrees to finance State-funded institutions (e.g. public hospitals and universities) provided that they have autonomous status in the country.

Applications

25. Applications in Russian are acceptable.

26. The application will now include a question on how the organization became aware of the existence of the Fund.

Admissibility requirements

27. With respect to admissibility requirements:

(a) Funding of leaflets/web pages to raise awareness of the activities of organizations among torture victims is acceptable;

(b) Travel of staff in the context of the project is acceptable;

(c) In-house training aimed at staff of the organization and other professionals involved in the implementation of the project (such as pro bono lawyers and immigration officers) is acceptable and should not exceed 10 per cent of the expenditures of the grant;

(d) Subscriptions to magazines are not acceptable and remain outside of the Fund's mandate.

Capacity-building of applicants and grantees

28. New projects from priority regions identified during the intersessional period which are not in a position to be presented at the October session may be presented to the Board at its February session, provided that they meet all admissibility criteria at that time.

29. Recommendation 15 called for an active role by the Fund in the capacity-building of grantees. The Secretariat has started to work with organizations which have submitted applications falling within the mandate of the Fund but which are not sufficiently documented to be presented to the Board. The Secretariat assists these organizations to prepare their applications and better meet the Fund's requirements through OHCHR field presences and, where these do not exist, through United Nations country teams when possible.

30. When conducting field missions, staff members invest time in building the capacity of applicants and grantees. Recommendations are issued after visits and their implementation constitutes a determining factor in the allocation of future grants. Such recommendations range from requesting that the organization arrange its files to providing evidence of how the organization monitors assistance to clients.

31. In addition, the Secretariat has started to develop a web page for beneficiary organizations which will be available on the Fund's website and where they will be able to find suggestions to assist them in implementing the Fund's recommendations and to improve their own activities.

Revised budgets

32. Once an organization is informed of the amount awarded by the Fund, it is under the obligation to submit a revised budget reflecting the projected use of the amount approved by the Board by a deadline to be determined by the Secretariat. Organizations will be informed that no further communication on the issue will be sought by the Secretariat and that failure to submit a revised budget within the deadline will result in the cancellation of the grant.

Overhead costs

33. The Board has decided to cap overhead costs as follows:

(a) Up to 6 per cent — no justification from the organization is required;

(b) Between 7 and 13 per cent — justification must be provided;

(c) Above 13 per cent is not considered acceptable.

Mismanagement or fraud

34. In cases where the Board considers that there has been fraud or mismanagement in an organization supported by the Fund, no further application will be accepted unless the organization has taken serious internal measures to address the situation and provides evidence which the Board finds satisfactory.

Interviews with victims during visits to organizations supported by the Fund

35. In the framework of evaluation visits to projects, organizations have the obligation to facilitate meetings between beneficiaries of the projects and the evaluators, who must in turn respect the principle of confidentiality and the autonomy of the victim. The latter has the right to refuse to meet with evaluators, or may request the presence of his/her therapist/counsellor during the interview. The Board and the Secretariat do not seek to interview victims about their traumatic experiences but rather wish to obtain the victims' perspective on the organization that assists them.

Provisional terms of reference and methods of work of the Board

36. In order to ensure continuity, taking into account the turnover of Board members and Secretariat staff, the Board has decided to adopt provisional terms of reference and methods of work which are reproduced in the annex.

IV. Outstanding recommendations of the Office of Internal Oversight Services

37. The Office of the United Nations High Commissioner for Human Rights submitted to OIOS in June 2007 detailed information on action taken by the Board and the Secretariat to implement its recommendations. OIOS considers that all recommendations have been implemented, except for recommendations 6 (b), 7 (d) and 9.

Multi-year funding

38. Recommendation 6 (b) suggested that the Board consider multi-year project approval for three-year periods for projects with a good track record with the Fund. The Board will draw on other institutional donors' experience at its next session and will establish criteria and guidelines to implement this recommendation at its twenty-eighth session, in February 2008.

Interaction with donors and other United Nations entities

39. Recommendation 7 (d) called on the Board to strengthen its interaction with donors and to be more proactive in fund-raising by approaching decision makers in donor capitals and by better promoting the Fund to actual and potential donors, within the context of an OHCHR global fund-raising strategy. It also called on the Board and Secretariat to address the issue of greater synergies with other United Nations entities.

40. At its last session, the Board met with the OHCHR Resource Mobilization Unit to explore possible fund-raising strategies. The Board also met with interested Member States, in particular some members of the "Rubens Group" of donors, including Denmark, Ireland, the Netherlands and the United Kingdom of Great Britain and Northern Ireland, to brief them on priorities for the year 2007. In the context of these meetings, the Board highlighted what it considered to be its added value, which could in turn encourage Governments to contribute to the Fund rather than finance projects bilaterally. In this respect, the Board distributes grants without being constrained by national or bilateral interests, exercises quality control over monies disbursed and is able to finance projects in conflict zones, which may be less accessible to government bilateral funding. The Board considers that its main weaknesses are the significant gap between the resources available for grant allocation and the requests received, as well as its limited visibility in certain regions, with a consequential lack of projects being received from them.

41. The Board has requested that the Secretariat organize meetings with institutional donors, namely representatives from the European Commission, the United States Agency for International Development and the United States Office of Refugee Resettlement, among others, at its twenty-seventh session to exchange information, discuss possible coordination of donor policies and identify possible synergies.

Strengthened management system

42. Recommendation 9 states that, the "Fund should establish a central and computerized historical, financial and narrative project tracking system that will allow staff to follow and document the history and progress of its relationships with grantees and donors". The Secretariat is currently developing a Web-based tool to strengthen the management of the Fund through improved administrative and management processes as well as enhanced assistance and monitoring of the work of grantees. The tool includes external online application and reporting modules, which will allow organizations to submit requests for funding and reports on the use of grants through the Web. It also includes an internal administration module to administer the work of the Fund and manage the allocation and payment of grants.

43. The external application module has been developed and tested with selected grantees both from technically developed and less technically developed countries. The testing allowed its refinement and upgrade, which was finalized in July 2007. The Secretariat is currently working on the French and Spanish versions of the application module. The application module is expected to be available during the first quarter of 2008 for the use of grantees for applications for 2009.

44. The Secretariat is also currently working on the refinement and upgrade of the internal administration module and a first live testing will take place in preparation of the twenty-seventh session of the Board in October 2007. The external reporting module, which mirrors the application module, has already been conceptualized and will be developed during 2008 in order for it to be ready for organizations to use when submitting their reports on the use of the 2009 grants.

V. International Day in Support of Victims of Torture

45. On 26 June 2007, the United Nations Committee against Torture, the Subcommittee on Prevention of Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Special Rapporteur on torture and other cruel, inhuman or degrading treatment or punishment, the Board of Trustees of the United Nations Voluntary Fund for Victims of Torture and the United Nations High Commissioner for Human Rights made the following statement to commemorate the International Day in Support of Victims of Torture:

> "We welcome the entry into force, last year, of the Optional Protocol to the Convention against Torture as an historic step in the fight against torture and other forms of ill-treatment. This protocol provides for the establishment of independent national preventive mechanisms empowered to undertake visits to places of detention. The Optional Protocol deserves all possible support from States, the United Nations and civil society.
>
> "The past year saw another welcome landmark: the adoption by the General Assembly of the International Convention for the Protection of All Persons from Enforced Disappearance. In view of the strong links between torture and enforced disappearances, this treaty brings hope to many who have despaired of the fate of their loved ones.
>
> "This year the United Nations International Day in Support of Victims of Torture coincides with the twentieth anniversary of the entry into force of the Convention against Torture. During the past 20 years, this instrument has served to strengthen efforts to prevent torture and support victims. However, its universal ratification is still to be achieved.
>
> "We call on all States to become party to the Convention against Torture and make the declarations provided under articles 21 and 22 of the Convention, on inter-State and individual complaints, in order to maximize transparency and accountability in their fight against torture. States must also cooperate in good faith with the Committee against Torture in implementing its views and recommendations, including in its inquiry capacity.
>
> "It is a matter of grave concern that some States have disregarded the Committee's requests not to deport or remove individuals to countries where they run the risk of being tortured. We stress that such actions nullify the

effective exercise of the international right of individual petition and seriously undermine the protection of the rights enshrined in the Convention. We remind States which have accepted the competence of the Committee against Torture to receive individual communications that they are bound to cooperate with the Committee in applying and giving full effect to the individual complaints procedure.

"The application of the death penalty in many parts of the world continues to concern us as persons on death row and executed persons, as well as the members of their families, are, under certain circumstances, also victims of torture. Irrespective of whether the death penalty is considered lawful or not under international law, many issues regarding its application may be contrary to international norms against torture and other cruel, inhuman or degrading treatment or punishment. In itself, the holding of persons on death row for extended periods often gives rise to cruelty and inhumanity. The failure to notify prisoners and family members until the last moment, if at all, that the death penalty will be carried out is unacceptable treatment. The act of execution itself is frequently carried out in circumstances that are degrading and fail to respect the inherent dignity of the person, thus breaching international law. Given these many problems, we call on all States that continue to apply the death penalty to consider a moratorium on its use.

"On this International Day in Support of Victims of Torture, we pay tribute to all Governments, civil society organizations and individuals engaged in activities aimed at preventing torture, punishing it and ensuring that all victims obtain redress and have an enforceable right to fair and adequate compensation, including the means for as full rehabilitation as possible. We express our gratitude to all donors to the United Nations Voluntary Fund for Victims of Torture and hope that contributions to the Fund will continue to increase, so that more victims of torture and members of their families can receive the assistance they need. We call on all States, in particular those which have been found to be responsible for widespread or systematic practices of torture, to contribute to the Voluntary Fund as part of a universal commitment for the rehabilitation of torture victims."

VI. How to make a contribution to the Fund

46. Contributions to the Fund should always be marked as follows: "payee. United Nations Voluntary Fund for Victims of Torture, account CH". Payments may be made either by bank transfer: (a) in United States dollars to "United Nations Geneva General Fund", account No. 485001802, J.P. Morgan Chase Bank, International Agencies Banking, 1166 Avenue of the Americas, 17th floor, New York, NY 10036-2708, United States of America (Swift code: CHAS US 33; ABA code: 021000021); (b) in euros to "United Nations Office at Geneva", account No. 23961901, J.P. Morgan Chase Bank, 125 London Wall, London EC2Y 5AJ, United Kingdom (Swift code: CHAS GB 2L, Sorting code: 60-92-42, IBAN: GB2[illegible]CHAS 6092 4223 9619 01); (c) in pounds sterling to "United Nations Office at Geneva", account No. 23961903, J.P. Morgan Chase Bank, 125 London Wall, London EC2Y 5AJ, United Kingdom (Swift code: CHAS GB 2L, Sorting code: 60-92-42, IBAN: GB25 CHAS 6092 4223 9619 03); (d) in Swiss francs to "United Nations Geneva General Fund", account No. 240-C0590160.0, UBS, rue du Rhône 8, Geneva 2, Switzerland

(Swift code: UBSW CH ZH 12A; IBAN: CH65 0024 0240 CO59 0160 0); (d) in any other currency to "United Nations Geneva General Fund", account No. 240-C0590160.1, UBS, rue du Rhône 8, Geneva 2, Switzerland (Swift code: UBSW CH ZH 12A; IBAN: CH65 0024 0240 CO59 0160 1); (e) or by cheque payable to "United Nations" addressed to: Trésorerie, Nations Unies, Palais des Nations, CH-1211 Geneva 10, Switzerland. Donors are requested to inform the Secretariat of the Fund and the Resource Mobilization Unit of the Office of the High Commissioner for Human Rights when a payment has been made (a copy of the bank transfer order or of the cheque would be appreciated) to facilitate effective follow-up on the official recording procedure and preparation of the Secretary-General's reports.

VII. Conclusions and recommendations

47. Pursuant to the appeals by the General Assembly and the Board of Trustees of the Fund, donors are invited to pay their contributions to the Fund before the regular allocation session of the Board to enable the latter to take them into account at its twenty-ninth session, in October 2008.

48. The General Assembly and the Board have also urged regular donors to increase their contributions if possible in order to provide the Board with the resources to meet the growing needs of torture victims and members of their families.

49. The Board strongly encourages Governments that have not yet contributed to the Fund to do so for the first time, preferably before September 2008.

Annex

Provisional terms of reference and methods of work of the Board of Trustees of the United Nations Voluntary Fund for Victims of Torture

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Part one

Terms of reference

I. Sessions

Rule 1
Sessions

The Board of Trustees of the United Nations Voluntary Fund for Victims of Torture (hereinafter referred to as "the Board") shall hold such sessions as may be required for the effective performance of the functioning of the Fund, in accordance with General Assembly resolution 36/151 of 16 December 1981.

Rule 2
Number and date of sessions

1. The Board shall normally hold two sessions each year, one session dedicated mainly to policy issues and another session to grant allocation.

2. Sessions of the Board shall be convened on dates decided upon by the Board in consultation with the Secretary-General of the United Nations (hereinafter referred to as "the Secretary-General"), taking into account the calendar of conferences and meetings approved by the General Assembly.

Rule 3
Place of sessions

Sessions of the Board shall normally be held at the United Nations Office at Geneva. Another venue for a session may be proposed by the Board in consultation with the Secretary-General.

Rule 4
Notification of opening date of sessions

The Secretary-General shall notify members of the Board of the date, duration and place of the first meeting of each session. Such notification shall be sent as early as possible.

II. Agenda

Rule 5
Provisional agenda

The provisional agenda for each session shall be prepared by the Secretary-General in consultation with the Chairperson and circulated to the members of the Board for comments.

Rule 6
Transmission of the provisional agenda

The provisional agenda and the basic documents relating to each item thereof shall be prepared by the Secretary-General, who shall endeavour to have the documents transmitted to members of the Board as early as possible.

Rule 7
Adoption of the agenda

The first item on the provisional agenda for any session shall be the adoption of the agenda.

Rule 8
Revision of the agenda

During a session, the Board may amend the agenda and may, as appropriate, add, delete or defer items.

III. Members of the Board

Rule 9
Duties of the Board

The Board of Trustees advises the High Commissioner for Human Rights, on behalf of the Secretary-General, on the administration of the Fund. The Board shall submit its recommendations to the High Commissioner for approval.

Rule 10
Term of office and selection criteria of members

1. The Board is composed of a Chairperson and four members with wide experience in the field of human rights. The members of the Board shall be appointed by the Secretary-General for a term of three years, renewable once.

2. Members of the Board of Trustees should be independent experts acting in their personal capacity. The principle of independence requires that the members are not subject to direction or influence of any kind, or to pressure from the State or its agencies in regard to the performance of their duties.

3. When appointing members of the Board in consultation with their Governments due regard should be given to gender balance and equitable geographical distribution. Country rotation should also be pursued when outgoing members are replaced.

4. Members should have wide experience in the field of human rights and knowledge of fund-raising, allocation of funds and project management.

5. Members should abstain from engaging in any activities or functions that may appear to be not readily reconcilable with their independence.

6. Members should be able to dedicate time to the fulfilment of their mandate. They should be available at least four weeks in the year to attend the annual sessions of the Board and undertake field visits to projects financed by the Fund.

Rule 11
Election of the Chairperson

The Board shall elect from among its members a Chairperson for a two-year period, renewable for the remainder of his or her mandate. If the appointment of the Board member acting as the Chairperson is renewed by the Secretary-General for a second term of three years, the Board member may be re-elected for a last term of one year. The term of office of the Chairperson is limited to four years in total.

Rule 12
Conduct of election

1. Where there is only one candidate for election as Chairperson, the Board may decide to elect that person by acclamation.

2. Where there are two or more candidates for election as Chairperson, or where the Board otherwise decides to proceed with a ballot, the person who obtains a simple majority of the votes cast by members present and voting shall be elected.

3. If no single candidate receives a majority of the votes cast, the members of the Board shall endeavour to reach a consensus before holding a further ballot.

4. Elections shall be held by secret ballot.

Rule 13
Solemn declaration

Upon assuming their duties, members of the Board shall make the following solemn declaration at the opening of their first session:

> "I solemnly declare that I shall perform my responsibilities and duties as a member of the Board of Trustees of the United Nations Voluntary Fund for Victims of Torture honourably, faithfully, impartially and conscientiously."

Rule 14
Functions of the Chairperson

1. The Chairperson shall perform the functions conferred upon her or him by the present terms of reference and the decisions of the Board.

2. In the exercise of those functions the Chairperson shall remain under the authority of the Board.

3. The Chairperson shall represent the Board at United Nations meetings in which the Board is officially invited to participate. If the Chairperson is unable to represent the Board at such a meeting, she or he may designate another member of the Board to attend on her or his behalf.

Rule 15
Absence of the Chairperson from meetings of the Board

1. If, during a session, the Chairperson is unable to be present at a meeting or any part thereof, she or he shall designate another member of the Board to act in her or his place.

2. Any member acting as Chairperson shall have the same powers and duties as the Chairperson.

Rule 16
Members of the Board

Members of the Board may not be represented by alternates.

Rule 17
Filling casual vacancies

If a member of the Board resigns, or declares that she or he can no longer perform her or his duties as a member of the Board, dies, or is prevented for any reason from performing her or his duties without so declaring, the Secretary-General shall within two months nominate another expert from the same regional group for the remaining part of the term.

IV. Secretariat

Rule 18
Duties of the Secretary-General

1. The Secretary-General

(a) Shall provide the secretariat of the Board ("the Secretariat");

(b) Shall provide the Board with the necessary staff and facilities for the effective performance of its functions under General Assembly resolution 36/151;

(c) Shall be responsible for all necessary arrangements for meetings of the Board.

2. The Secretary-General shall be responsible for informing the members of the Board without delay of any questions that may be brought before it for consideration or of any other developments that may be of relevance to the Board.

Rule 19
Statements

The Secretary-General or her or his representative shall be present at all meetings of the Board and may make oral or written statements at such meetings.

Rule 20
Financial implications

Before any proposal that involves expenditure is approved by the Board, the Secretary-General shall prepare and circulate to the members of the Board as early as possible an estimate of the cost involved in the proposal. It shall be the duty of the Chairperson to draw the attention of members to this estimate and to invite discussion on it when the proposal is considered by the Board.

V. Languages

Rule 21
Official languages

English, French and Spanish shall be the official languages of the Board, or any of the official languages of the United Nations as required.

Rule 22
Working languages

English shall be the working language of the Board unless members agree on a different language, owing to the composition of the Board.

Rule 23
Interpretation

Interpretation shall be made available in all official languages during meetings with Member States, donors and non-governmental organizations.

VI. Conduct of business

Rule 24
Private meetings

The meetings of the Board shall be private unless the Board decides otherwise.

Rule 25
Quorum

Three members of the Board shall constitute a quorum.

Rule 26
Powers of the Chairperson

1. The Chairperson, in accordance with the present rules, shall control the proceedings of the Board and ensure the maintenance of order at its meetings. She or he shall ensure that the Board proceeds with its work efficiently, including through limiting time allowed to speakers.

2. The Chairperson shall rule immediately on points of order, which may be raised by a member at any time during the discussion. A member raising a point of order may not speak on the substance of the matter under discussion.

3. The Chairperson may call a speaker to order if his or her remarks are not relevant to the subject under discussion.

4. The Chairperson may propose to the Board to adjourn or close the debate, or to suspend or adjourn the meeting.

5. Any member may request that a decision regarding the conduct of the Board's business be immediately put to the vote.

VII. Voting

Rule 27
Adoption of decisions

1. The Board shall endeavour to reach its decisions by consensus.

2. If and when all reasonable efforts to reach consensus have been exhausted, decisions of the Board shall be taken by a simple majority of the members present and voting.

Rule 28
Voting rights

1. Each member of the Board shall have one vote.

2. For the purpose of the present rules, "members present and voting" means members casting an affirmative or negative vote. Members who abstain from voting are considered as not voting.

Rule 29
Equally divided votes

If a vote is equally divided on a matter other than an election, the proposal shall be regarded as not having been approved.

Rule 30
Method of voting

The Board shall normally vote by show of hands, except that any member may request a roll-call, which shall then be taken in the English alphabetical order of the names of the members of the Board, beginning with the member whose name is drawn by lot by the Chairperson.

VIII. Participation of non-governmental organizations and donors

Rule 31
Participation of non-governmental organizations

1. Representatives of non-governmental organizations may be invited by the Board to make oral statements in order to provide information on activities which are relevant to the work of the Board, including in the framework of fund-raising events.

2. The Board shall earmark funding to cover expenses relating to the participation of non-governmental organizations invited to such events.

Rule 32
Participation of donors

Donor representatives may be invited by the Board to exchange information on fund-raising strategies and funding policies.

IX. Annual report of the Secretary-General

Rule 33
Annual report of the Secretary-General

As per the arrangements for the management of the United Nations Voluntary Fund for Victims of Torture (A/36/540, annex), an annual report, showing funds available, pledges and funds received and the expenditures made from the Fund, shall be submitted to the General Assembly and, as appropriate, to the Commission on Human Rights. As of 2007, a report shall be submitted to the Human Rights Council.[a] The reports shall be prepared by the Secretary-General.

[a] Council decision 2/102 of 6 October 2006.

Part two

Methods of work of the Board

I. Grant allocation

Rule 34

During its annual session on grant allocation, the Board makes recommendations for approval by the Secretary-General on grants to be distributed to projects providing medical, psychological, social, legal and financial assistance to victims of torture and their relatives.

Rule 35

The Secretariat shall provide the Board with relevant information on the projects to be considered in order to facilitate the decision process with respect to the distribution of grants.

Rule 36

The Board may recommend that a grant be paid promptly, if all the requirements are fulfilled (see Guidelines of the Fund for the use of organizations). If additional information is needed or a requirement not yet met, the Board may recommend keeping a grant pending until a given date that will be set by the Board.

Rule 37

Members of the Board shall refrain from taking a decision on grant allocation with respect to organizations they may be associated with to avoid a conflict of interest. As a rule, members should not receive any personal benefits from, or be financially or managerially associated with organizations supported by the Fund.

Rule 38

The Secretariat will release grants during the intersessional period once all the requirements are met, or request additional information from applicants if needed.

Rule 39

The Board and the Secretariat may request organizations to totally or partially refund a grant when requirements are not met (see Guidelines of the Fund for the use of organizations).

Rule 40

During the intersessional period, the Board may make recommendations to the Secretariat on requests for funding under the emergency procedure of the Fund. All members will be informed of any new requests, however, if the amount requested is lower than US$ 20,000, the approval of only two members, including the Chairperson, will be required. Above this amount, the approval of three members, including the Chairperson and the member from the region concerned, is needed.

Rule 41

During the intersessional period, the Board may make recommendations to the Secretariat on grants relating to projects identified by field presences of the Office of the High Commissioner for Human Rights, members of the Board or the Secretariat, in priority regions or countries determined by the Board.

II. Decisions

Rule 42

The Secretariat shall send to the members of the Board as early as possible a list of issues identified by members of the Board and the Secretariat during the intersessional period on which decisions may be required.

III. Fund-raising

Rule 43

The Board is authorized to promote and solicit contributions and pledges, in accordance with General Assembly resolution 36/151. The Board shall meet regularly with donors to inform them of the activities of the Fund and priorities established by the Board. To that effect, the Secretariat shall organize multilateral or bilateral meetings with donors, in consultation with the Resource Mobilization Unit of the Office of the High Commissioner for Human Rights.

IV. Field visits

Rule 44

Members of the Board may undertake missions to projects implemented in the field, in order to assess the impact of the Fund's work through the organizations it finances. These visits are useful to formulate new policies and verify their impact.

V. Dissemination of information

Rule 45

The Board shall have a proactive role in disseminating information on the Fund and identifying potential grantees in their respective regions, as well as during missions to other regions.

VI. Cooperation with other United Nations bodies

Rule 46

The Board shall cooperate closely with the Committee against Torture and the Subcommittee on Prevention of Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, as well as with the Special Rapporteur on the question of

torture. The Board shall exchange information with these bodies on issues of common interest.

Rule 47

On 26 June, International Day in Support of Victims of Torture, the Board shall adopt a joint statement with the Committee against Torture, the Subcommittee on Prevention of Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Special Rapporteur on the question of torture and the High Commissioner for Human Rights.

VII. Review of methods of work

Rule 48

The Board shall regularly review its methods of work, as well as the Guidelines of the Fund for the use of organizations, in order to continue to strengthen the efficiency and effectiveness of the Fund.

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Item 55 of the provisional agenda*
Follow-up to and implementation of the outcome of the International Conference on Financing for Development

Follow-up to and implementation of the Monterrey Consensus of the International Conference on Financing for Development: the regional dimension

Report of the Secretary-General**

Summary

In its resolution 59/293, the General Assembly, inter alia, requested the Secretary-General to seek from the regional commissions their inputs on the regional and interregional aspects of the follow-up to the International Conference on Financing for Development and to report thereon to the High-level Dialogue on Financing for Development. In its resolution 61/191, the General Assembly decided that the modalities of the 2007 High-level Dialogue would be the same as those of the 2005 High-level Dialogue.

The report, prepared by the five regional commissions, provides the regional dimension of the follow-up to the International Conference. It reflects progress in the relevant areas, including the mobilization of domestic and international resources, official development assistance, technical cooperation, foreign direct investment and private financial flows for development. It also analyses the regional dimension of relevant issues for improving the coherence of the international monetary, financial and trading systems in support of development.

* A/62/150.

** The present report was prepared by the five regional commissions (the Economic Commission for Europe, the Economic and Social Commission for Asia and the Pacific, the Economic Commission for Latin America and the Caribbean, the Economic Commission for Africa and the Economic and Social Commission for Western Asia) in response to General Assembly resolutions 59/293 and 61/191.

07-45017 (E) 270807

The report underlines that staying engaged with all major stakeholders, including at the regional level, through continued discussions of issues relevant to the follow-up process is critical. The regional commissions have been undertaking a leading role in organizing follow-up activities to the International Conference on Financing for Development, in cooperation with other relevant regional stakeholders. Regional activities have raised awareness of the aims of the Monterrey Consensus and of the need to adopt policies and regulations that promote development finance and strengthen cooperation to meet the objectives of the internationally agreed development goals including the Millennium Development Goals.

I. Introduction

1 The biennial High-level Dialogue of the General Assembly on Financing for Development (Monterrey Consensus) provides an opportunity to assess the progress made, recognize obstacles and constraints, and identify new challenges, opportunities and emerging issues of concern to developing countries.

2. Developing countries have, on average, registered in the last decade an improvement in their gross domestic product (GDP) per capita growth rates. Low income countries growth rates have expanded on average from 3 per cent to 4.6 per cent between the periods 1995-2001 and 2002-2006, respectively. Middle income countries recorded growth rates of 2.9 per cent and 4.6 per cent for the same periods. For their part, the least developed countries witnessed an increase in their per capita GDP growth rates from 2.4 per cent to 3.1 per cent.[1]

3. The increase in growth has contributed to reducing poverty levels in the developing world. The share of the population in developing countries living on less than one dollar per day, which fell from 32 per cent in 1990 to 19 per cent in 2004, is expected to fall further, to 10 per cent in 2015. Notwithstanding, the performance by region has been unequal. With the exception of Western Asia, which saw an increase in its poverty rates between 1999 and 2005, most Asian and Latin America countries are poised to reduce extreme poverty by half by the Millennium Development Goal target date. Contrarily, sub-Saharan African States have not experienced changes in their poverty rates. The Commonwealth of Independent States (CIS), which registered a significant rise in poverty during their transitional phase to market economies in the 1990s, have begun to reverse that trend.[2]

4. Pursuant to General Assembly resolution 60/188, the present report provides information on the implementation of the Monterrey Consensus of the International Conference on Financing for Development,[3] including concrete recommendations for follow-up actions. The report follows the structure of the Monterrey Consensus.

II. Mobilizing domestic financial resources for development

5. Overall, in the past two decades macroeconomic policy in developing countries has improved. Inflation has declined from 8.5 per cent to 7 per cent on average for low income countries between the periods 1995-2001 and 2002-2006, respectively. In the case of middle income countries, the reduction has been greater (6.7 per cent to 4.9 per cent for the same periods). At the regional level, Western Asia registered the most substantial reduction in its rate of inflation.[4] The regions of

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[1] World Bank, *Global Monitoring Report 2006, Millennium Development Goals —strengthening aid, trade, and governance* (Washington, D.C.); *The Millennium Development Goals Report 2007* (United Nations publication, Sales No. E.07.I.15); World Bank, *World Development Indicators 2007* (Washington, D.C., 2007).

[2] *The Millennium Development Goals Report 2007* (United Nations publication, Sales No. E.07.I.15).

[3] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002*, (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

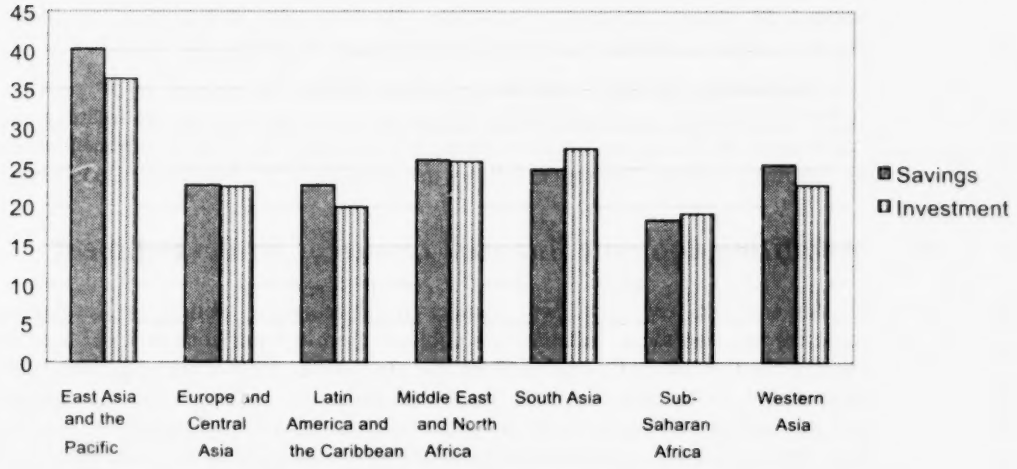
[4] This is explained mostly by the behaviour in the level of prices in the Gulf Cooperation Council States.

South Asia, sub-Saharan Africa, and East Asia and the Pacific recorded milder declines (7.6 per cent and 6.4 per cent; 6.2 per cent and 4.8 per cent; and 5.2 per cent and 4.5 per cent, respectively, for the same periods). The rate of inflation in the Latin America and Caribbean region remained stable, at around 6 per cent. The CIS economies continue to have inflation rates slightly above the world averages.[5]

6. The fiscal position of most developing economies has also improved. The low income countries' overall government deficit declined from -4.9 per cent to -1.8 per cent of GDP between the periods 1995-2001 and 2002-2006, respectively, and the middle income countries also managed to reduce their fiscal imbalance from -3.1 per cent to -1.5 per cent over the same period.[6]

7. In spite of the improved macroeconomic performance, low national savings rates and shallow financial markets have obstructed the mobilization of domestic resources for development purposes. National savings rates remain low in the post-Monterrey period. With the exception of some East Asian nations, saving rates are still below 25 per cent. Concomitantly, investment rates are also below the required levels to sustain poverty reducing rates of growth over time (see figure 1).

Figure 1
Gross domestic savings and investment as percentage of GDP by region 2002-2005 (averages)



Source: World Bank, *World Development Indicators* (2007).

8. The financial systems of developing countries are basically bank-based, short-term-oriented and inefficient. The levels of lending are low, as shown by the ratio of

[5] The sources for the data include the World Bank Development Indicators and the inputs provided by the regional commissions to this report.

[6] World Bank, *Global Monitoring Report 2006, Millennium Development Goals — strengthening aid, trade and governance* (Washington, D.C., 2006); World Bank, *World Development Indicators 2007* (Washington, D.C., 2007).

credit to GDP ratios, which remains below 0.5 for most regions, with the exception of East Asia (1.3). In turn, low levels of lending are partly related to intermediation costs. These are twice as high for developing countries on average (with the exception of East Asia) than they are for developed ones.

9. A key element for improving the mobilization of domestic resources is financial sector development, and a key need for the use of these resources is physical infrastructure. A solid infrastructure basis is an essential component of any strategy designed to create the business environment capable of mobilizing domestic resources for development.

10. For middle income countries, available data for the period 2000-2004 indicate that the greater majority of households living in urban and rural areas have access to basic infrastructure services, including electricity (84 per cent and 81 per cent), water (84 per cent and 89 per cent) and sanitation (70 per cent and 81 per cent) for lower and upper middle income countries, respectively.[6]

11. Contrarily, and in spite of the gains registered on socio-economic indicators (such as the primary school completion rate or measles immunization), access to infrastructure for households in low income countries is much more restricted. While 65 per cent of urban households in low income countries have access to electricity, the percentage drops to 17 per cent in rural areas. Similar differences are found in relation to access to water (83 per cent and 55 per cent) and sanitation (58 per cent and 28 per cent) in urban and rural areas, respectively.

12. Debt relief initiatives, together with better fiscal management and increased transparency and accountability of the public sector, have allowed the heavily indebted poor countries to increase poverty reduction expenditures (7 per cent of GDP in 1999 and over 9 per cent in 2005) under poverty reduction programmes. In 2006 poverty reduction expenditures expanded by roughly half a point of GDP. More precisely, these included expenditures in the social, infrastructure and agricultural sectors.

13. The 2005 review of the implementation of the poverty reduction strategy papers argues that the approach has focused mainly on poverty reduction and the need to address the constraints that are specific to each country. Five themes were found to be essential to improve the effectiveness of the poverty reduction strategy: strengthening the medium-term orientation of the strategy; using the strategy as an accountability framework; deepening the linkages between the strategy, the ministries of finance and the budget processes; sustaining meaningful participation; and tailoring the approach to conflict-affected and fragile States.[7]

III. Mobilizing international resources for development: foreign direct investment and other private flows[8]

14. The Monterrey Consensus asserted that national efforts must be complemented by long-term private capital flows, which have become the most important

[7] "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — status of implementation", prepared by the staffs of the International Development Association and the International Monetary Fund (IMF) (2006).

[8] This section uses data from official indicators and World Bank development indicators.

international source of finance for developing economies. The Consensus asserted that foreign direct investment (FDI) has the main benefit of contributing to financing development in the long term in a more stable and orderly fashion than portfolio investment. In addition, FDI is an important vehicle for the transfer of knowledge, skills and technology, and the creation of jobs, to increase productivity, enhance competitiveness and entrepreneurship, and reduce poverty.

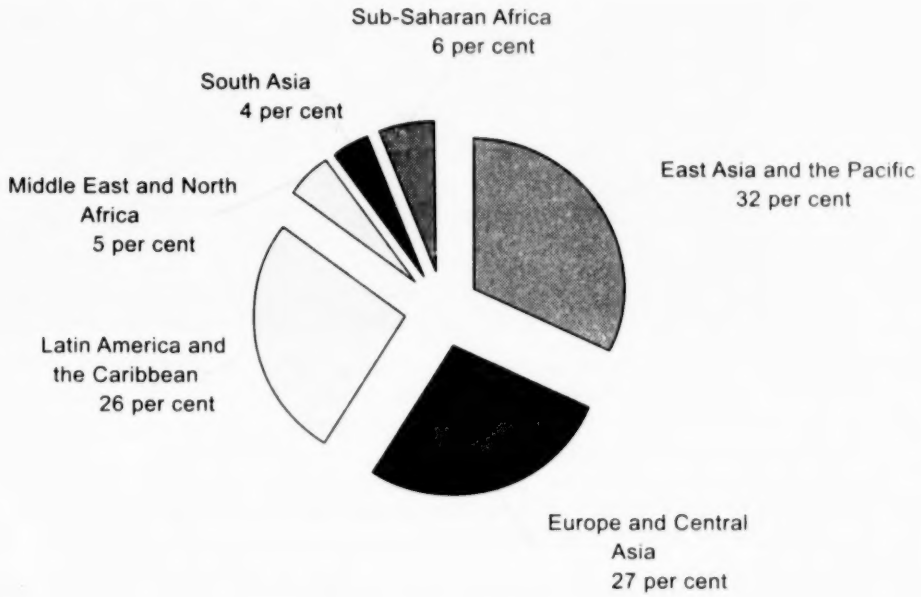
15. As a result, the Consensus argues that countries must step up efforts to attract foreign direct investment. As part of these efforts countries must concentrate on creating the adequate macroeconomic environment and the appropriate regulatory framework to allow foreign direct investment to operate efficiently. Long-term capital inflows should also be complemented with other types of flows; for example, remittances and official aid. In addition, international organizations should provide support through the provision of export credits, risk guarantees, co-financing, and leverage of aid resources and venture capital, as well as provision of information on investment opportunities.

16. For all developing regions, with the exception of sub-Saharan Africa, net private capital flows constitute the most important source of external finance, representing more than 80 per cent of total net financial flows. Net private capital flows increased significantly in the 1990s, up from $38 billion in 1990 to $212 billion in 1999, and have shown a renewed impulse from 2003 to 2005 ($219 billion and $562 billion, respectively). Both upper and lower middle income countries have registered the most significant increases in the past biennium.

17. Within this category, the most important contributor is FDI flows and, to a lesser extent, debt flows. In developing economies as a whole, the flow of FDI increased from 18 per cent to 44 per cent of total financial flows between 1970 and 2006, reaching $316 billion in 2006.

18. From a regional perspective, the regions of East Asia and the Pacific, Latin America and the Caribbean, and Europe and Central Asia are the main recipients of FDI, with 85 per cent of the total (see figure 2). South Asia receives 4 per cent of the total, while Africa is recipient to more than 10 per cent of the total. For its part, Western Asia receives 3 per cent of total FDI to developing countries. The regional distribution is mirrored by the distribution on an income level basis, which shows that middle income countries receive 92 per cent of total FDI (53 per cent and 39 per cent for upper and lower middle income countries, respectively).

Figure 2
Share of developing country foreign direct investment flows by region (2002-2006)

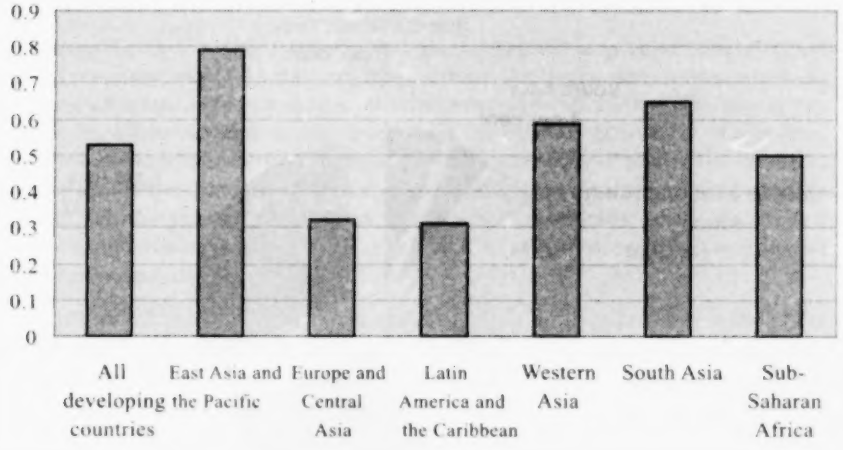


Source: *World Bank, World Development Indicators 2007.*

19. Within the regions not all countries have benefited equally from FDI. According to a computation of the Herfindahl-Hirschmann Index for FDI flows, East Asia and the Pacific and South Asia exhibit the highest degree of concentration of FDI flows (0.8 per cent and 0.7 per cent, respectively). For 2005, in the case of South Asia, India captured 66 per cent of the region's FDI, while in the case of East Asia, China had the lion's share (82 per cent of the total). The Latin American and Caribbean region exhibits the lowest levels of concentration (0.3 per cent). For its part, the Western Asia concentration index is above the average (see figure 3).[9]

[9] The Herfindahl-Hirschmann index is a measure of concentration that varies between 0 and 1.

Figure 3
Herfindahl-Hirschmann Index for foreign direct investment within developing regions 2002-2006



Source: On the basis of World Bank World Development Indicators and inputs received from United Nations regional commissions (2007).

20. Debt flows showed an increasing trend during the first half of 2000, reaching an overall high of $152 billion in 2006. This contrasts sharply with the sharp decline registered between 1996 and 2000.

21. The regional distribution indicates that the bulk of the increase (75 per cent) is explained by Europe and Central Asia, and in particular by the Russian Federation and Turkey. The rest of the regions showed either a decline, as in the case of Latin America and, to a lesser extent, East Asia and the Pacific and the Middle East and North Africa, or a moderate rise, as in the cases of sub-Saharan Africa and South Asia.

22. Portfolio equity flows also experienced a steep hike from 2001 to 2006, rising from $5 billion to $94 billion. This reflects mainly the performance of East Asia and the Pacific, which accounts for half of portfolio equity flows. To a much lesser extent a similar pattern of portfolio equity flows exists in the rest of the regions.

23. The increase in equity flows results in part in a perception of improved growth prospects and lower risk levels for most economies. The Emerging Market Bond Index shows a clear declining trend in interest rate spreads, reflecting less risk and higher equity prices for most developing regions, with the exception of the Middle East. Between January 2006 and June 2007, the Index basis points fell from 252 to 239 for Africa; 211 to 118 for Asia; 143 to 128 for Europe; and 261 to 168 for Latin America.

24. The rise in inward flows has been accompanied by an expansion of outward flows captured in part by profits repatriation and debt service. Profit repatriation has risen significantly in the last four years, reaching an overall high of $176 billion in

2006, representing 43 per cent of total FDI and portfolio flows. Europe and Central Asia, Latin America and the Caribbean, and East Asia and the Pacific are the regions that register the highest level of outward flows, accounting for 33 per cent, 25 per cent and 22 per cent of the total, respectively.

25. Remittances have also become an increasingly important source of finance, jointly with FDI. They are private unrequited transfers that represent the persistence of family relationships. They also highlight the degree to which labour markets (both formal and informal) are integrated across national boundaries.

26. In 2005, remittances accounted, on average, for 5 per cent and 4 per cent of GDP of heavily indebted poor countries and least developed countries, respectively. In the case of the middle income countries, unilateral transfer flows reached 4 per cent and 2 per cent of GDP for lower middle and upper middle income countries, respectively, for the same year (see table 1). These averages hide significant disparities among countries. Lower middle income countries registered the highest level of remittance flows, ranging from 31 per cent to 22 per cent of GDP for 2005.

27. Remittances are an important component of domestic income. The main challenge confronting countries is how to channel remittances so that these flows can constitute an important tool for financing productive activities. Nevertheless, remittances used for consumption purposes are often significant in addressing poverty in the short run. Additionally, as in the case of Western Asia, remittances are an important vehicle of redistribution of surplus capital from the oil-exporting countries to the labour-abundant lower income economies. Intra-regional worker remittances within Western Asia amounted to $9.9 billion in 2004.

Table 1
Workers' remittances and compensation of employees as percentage of GDP by income levels (1995-2005)

	1995-2005	*2003*	*2004*	*2005*
World	0.48	0.58	0.59	0.62
Heavily indebted poor countries (HIPC)	2.84	4.08	4.29	4.42
High income	0.21	0.21	0.22	0.21
Least developed countries: United Nations classification	4.52	5.64	5.59	5.40
Low and middle income	1.58	2.06	1.99	1.97
Low income	3.06	3.99	3.68	3.61
Lower middle income	1.62	2.16	2.12	2.04
Upper middle income	1.00	1.17	1.18	1.29

Source: World Bank Development Indicators (2007).

IV. International trade as an engine for development

28. The Monterrey Consensus and the United Nations Millennium Declaration[10] view trade as the handmaiden of growth and an engine for development. Nevertheless, developing economies still account for a small share of world trade, despite a significant increase over the last two and a half decades. High income countries, mainly European and North American, and Japan, accounted on average for 75 per cent of world exports between 2001 and 2005. The share of middle income countries stood at 23 per cent. Exports of least developed countries and low income countries accounted for less than 2 per cent of total world exports (see table 2). In order to reduce poverty and improve the welfare of their populations, developing countries must increase their participation in world trade.

29. Although the quantity of manufactured exports from the developing countries has increased rapidly, for many developing countries these exports have a low technological content. In 2003, the share in primary commodity exports and labour-intensive and resource-based manufactures represented 41.6 per cent of developing country exports. Manufactures with high skill and high technological intensity represented 34.2 per cent of the total. These, however, were concentrated mainly in East Asian economies, with the exception of the economies of a limited number of Latin American countries.[11] Although increasingly rapidly, in general, these manufactures exports do not contribute sufficiently to manufacturing value added of the exporting countries.

Table 2
Exports of goods and services as percentage of world total by income groups 1980-2005

	1980-1990	*1991-2000*	*2001-2005*	*2002*	*2003*	*2004*	*2005*
Heavily indebted poor countries	0.76	0.46	0.48	0.49	0.48	0.48	0.49
High income	80.85	80.41	74.88	76.09	75.29	74.04	72.11
Least developed countries: United Nations classification	0.54	0.47	0.60	0.58	0.57	0.59	0.70
Low income	2.25	1.81	2.25	2.25	2.34	...	...
Lower middle income	7.69	8.78	12.19	11.38	11.98	12.90	14.13
Upper middle income	9.26	8.89	10.80	10.40	10.57	10.97	11.69

Source: World Bank, *World Development Indicators* (2007).

30. In addition, in the case of many developing countries, especially those situated in the lower income brackets, the landlocked developing countries and small island developing States, the pattern of trade is characterized by a narrow export base (reflecting limited diversification) and low technological content. In the case of the

[10] General Assembly resolution 55/2.

[11] United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report, 2005* (United Nations publication, Sales No. E.05.II.D.13).

least developed countries, the most important export product is fuel (36 per cent of the total), followed by clothing (19 per cent) and agricultural products (17 per cent).

31. As a result, the performance of these economies is vulnerable to external shocks such as variations in the terms of trade or natural phenomena. This contributes to the volatility of income. Combined with high import growth, this leads to external imbalances and places significant restrictions on fiscal and monetary policy management. On the other hand, the recent improvements in prices of primary products, resulting mainly from the rapidly increasing demand of China, has put upward pressure on exchange rates. These terms of trade changes have forced some developing countries to deal with the "Dutch disease" phenomenon, whereby the export prospects of their non-resource products are weakened.

32. Moreover, developing countries still face severe market access restrictions. In 2005, higher tariffs were imposed on developing countries by developed countries (2 per cent) than were imposed on developed countries by other developed countries (1 per cent). In terms of labour-intensive manufactures, developing countries' exports to developed countries faced an average tariff of 9 per cent. A lower tariff of 4 per cent was imposed on developed countries, and the use of non-tariff barriers has become more widespread. For instance, between 1994 and 2004 use of technical measures increased from 32 per cent to 59 per cent.[12]

33. By far, the majority of products, representing more than 60 per cent of the total, are exported to the United States and Europe under preferential trading arrangements. Still, the existing preferential trade agreements do not grant 100 per cent duty free access to all least developed countries' imports. In the case of the United States, roughly 40 per cent of all least developed countries' imports are subject to some type of duty. In the case of other less important trade partners from the developed world, such as Japan (4 per cent of the total), the percentage of imports that are subject to tariffs is higher (roughly 45 per cent).

34. In the particular case of the United States market, between 1997 and 2006, only 37 per cent of all least developed countries' exports entered under the auspices of a special programme. In the case of high income countries, 21 per cent of all exports entered under the arrangements provided by a special programme (see table 3). This reflects to a significant degree the free trade agreement the United States has with its largest trading partner — Canada.

[12] UNCTAD, *Trade and Development Report, 2006* (United Nations publication, Sales No. E.06.II.D.6); the tariffs referred to are weighted tariffs.

Table 3
Percentage of imports by income group entering the United States under special programmes

	1997-2006	*2003*	*2004*	*2005*	*2006*
World	21.6	21.5	20.9	21	20.8
Least developed	37	52	53	59.4	56.7
High Income	20.6	19.7	19	19.3	19.9
Low income	20.3	23.9	37.6	38.1	30.1
Lower middle income	9.26	10.7	10.1	10.38	10.1
Upper middle income	41.8	42.6	40.4	38.2	38.3

Source: On the basis of United States International Trade Commission data (2007).

35. Moreover, the commitments to services liberalization under the General Agreement on Trade in Services (GATS) are of limited scope. In addition, large developed countries have maintained protected services areas such as audio-visual, maritime transport, professional services and cross-border trade in financial services, which could be of significant benefit to developing countries.[13]

36. In their services negotiations, developing countries should aim to protect the national space for the design and implementation of social policies in general, which are not directly related to international trade. This includes, among others, access of public services to drinking water, a sewage system, telecommunications and other general physical infrastructure. This can be achieved even if private sector operators are allowed to provide these services. In effect, in the context of trade agreements, the State can outline in what conditions the public sector wishes to participate in productive activities as a supplier, a regulator, or both. This is contemplated in the World Trade Organization agreements, where certain conditions, which are conducive to promoting trade and are non-discriminatory, under which these activities can be undertaken are prescribed, while specific roles for States are not.

37. The need for export diversification constitutes a fundamental reason to attract FDI and a basis to enhance economic growth. At the same time, export diversification and trade liberalization require finance and adequate transitional periods to carry out the necessary adjustment and restructuring. In the case of the more vulnerable economies, export diversification can be developed through special and differential treatment provisions applicable to sectors that have strong linkages with the rest of the economy, in particular with dynamic sectors such as certain natural resourced-based sectors, several segments of manufacturing activities, and the services sectors. This would allow special and differential treatment to be based on the production possibilities and the comparative advantage of developing economies.

38. Developed countries are called to assist in trade expansion efforts by taking the necessary steps to benefit least developed countries and support the New Partnership for African Development, the small island developing States, the

[13] World Trade Organization, *Services Liberalization in the New Generation of Preferential Trade Agreements (PTAs): How Much Further than GATS?*, Staff Working Paper No. ERSD-2006-07 (September 2006).

landlocked developing countries and transition developing economies. Multilateral help to stabilize the export revenues of countries that are to a greater extent dependent on commodity exports can complement these efforts. In turn, less developed and developing economies should increase and strengthen their participation in the multilateral trade negotiations. As a case in point, only four countries belonging to the European Commonwealth of Independent States are currently members of the World Trade Organization.

39. The sixth ministerial meeting of the World Trade Organization (Hong Kong, China, 2005) witnessed progress in a number of important areas, including domestic support, export subsidies, and non-agricultural market access framework negotiations.[14]

40. In the realm of agricultural products, member States of the World Trade Organization decided, among other things, to eliminate all export subsidies. In the period 1998-2002, subsidies represented more than 1 per cent of GDP and 7 per cent of Government expenditure in developed countries. In the case of developing countries, subsidies accounted for 0.5 per cent and 3 per cent of GDP and Government expenditure, respectively, for the same period.

41. Member States of the World Trade Organization recommended that countries widen market access for non-agricultural products. To this end, they opted for the "Swiss formula", with coefficients permitting to reduce trade barriers of all types and take into account the needs of developing countries, including a lower level of reciprocity in commitments.

42. The member States also affirmed their commitment to the work programme on small economies and urged States to adopt measures to facilitate the integration of small economies into the world trading system. The members States instructed the trade negotiations committee to monitor negotiations in the different bodies to be able to make progress on trade-related issues by December 2006.

43. The Hong Kong conference also noted that the issues of interest to least developed countries are actually being addressed in the different negotiating areas. The Conference informed that members "in a position do so" agreed to grant duty free and quota free market access for all products that originated in the least developed countries by 2008. Members facing difficulties would grant duty free and quota free market access for at least 97 per cent of the products that originate from the least developed countries by 2008. In addition, it was decided that the least developed countries could comply with multilateral obligations to the extent consistent with their individual development, financial or trade needs, or their administrative and institutional capacities.

44. In order to help countries build supply-side capacities to improve their integration into international markets and to mitigate the transitional adjustment costs towards more open economies, the members of the World Trade Organization emphasized the need for Aid for Trade. As part of that initiative, the World Trade Organization created in February 2006 a task force to operationalize Aid for Trade. Two of the most important recommendations of the task force included value-chain analysis to identify trade needs and the establishment of mechanisms to support and deepen cooperation among developing economies.

[14] World Trade Organization, Doha Work Programme, WT/MIN(05)/DEC (2005).

45. Member countries also created the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries at the 1996 Singapore Ministerial Conference as part of the World Trade Organization action plan for least developed countries, which seeks to combine deeper international integration with the reduction of poverty.

46. Following a period of stalemate in trade negotiations, member countries of the World Trade Organization fully resumed negotiations at the beginning of 2007. The targets are to achieve consensus on the application of full modalities in agriculture and non-agricultural market access and a similar level of progress in all other negotiating areas following the Doha declarations and the two following ministerial conferences. Most of the sensitive subjects include the elimination of subsidies, the opening up of agricultural markets, and improvement of the offers made regarding industrial products. The present difficulties in the World Trade Organization negotiations must be solved for developing countries to reap the full benefits of multilateral trade liberalization.

47. At the same time, that the developing countries pursue fuller integration into multilateral organizations, they must deepen their regional integration initiatives. Some initiatives, such as the Caribbean Community, are heading towards a single market economy or a monetary union, as in the case of the Gulf Cooperation Council member States of Western Asia, while others (regional trade integration in the European region) have been only partly successful.

V. Increasing international financial and technical cooperation for development

48. The Monterrey Consensus and the Millennium Development Goals provide good examples of the efforts made by the international community to reinforce its commitment and policies to promote economic and social development. While the Goals set specific targets and timetables for the struggle against poverty and hunger, the Monterrey Consensus defines new targets for official development assistance (ODA). The Consensus espouses the idea that financing for development requires a holistic and interconnected approach. It also emphasizes the need for the full participation of all stakeholders in order to achieve better harmonization and coordination of donor countries' policies, together with improvement of the coordination of ODA flows and the domestic policies of recipient countries.

49. ODA flows trended upward from 1980 to 2005, rising from $27 billion to $73 billion, on average. In 2005, ODA flows provided by the Development Assistance Committee (DAC) totalled $107 billion, but, according to initial estimations, declined to $104 billion in 2006. ODA flows reached an average of 0.33 per cent of the gross national income (GNI) of DAC member countries in 2005. While short of the 0.7 per cent target, this is nonetheless the highest figure since 1997 and similar to the level attained in 1992. ODA forecasts indicate that flows will taper off in 2007 and that by 2010 they will have reached no more than 0.36 per cent.[15]

[15] See www.oecd.org.

50. Differentials across countries are significant. Some countries' ODA disbursements exceed 0.80 per cent of their GNI, while others donate less than 0.25 per cent. The regional distribution of ODA by individual donor indicates that for the biennium 2004-2005, 16 out of the 22 donor countries channelled the majority of their gross aid disbursement to sub-Saharan Africa. Two donors, Australia and New Zealand, distributed their aid mainly to other countries in Asia and Oceania. Austria and the United States focused the bulk of their aid in North Africa and the Middle East, in particular Iraq.[16] Greece focused its efforts in Europe, Spain and in Latin America.

51. The available evidence shows a decline in DAC donors' ODA as percentage of GNI from 0.33 per cent in 2005 to 0.30 per cent in 2006. More than half of the DAC member countries reduced their ODA disbursements as a percentage of GNI with respect to 2005. The level of dispersion among DAC member countries' ODA commitments did not vary.

52. On the recipient side, ODA flows are mainly concentrated in the lower income group. Least developed countries and low income countries have been able to maintain, on average, overall ODA shares above 30 per cent and 17 per cent, respectively, since the 1980s (see table 4).[17] Middle income countries have also managed to maintain a share equivalent to roughly 49 per cent, on average, for the same period. Within this group, lower middle income countries have seen a gain in their share from 39 per cent to 44 per cent of the total between 1980 and 2005.[18] In contrast, upper middle income countries' ODA shares have shrunk (9 per cent and 3.6 per cent of the total, respectively, for the same period).

53. Recent proposals on ODA seek to strengthen the role of middle income countries by including them as potential donors. This stems partly from the fact that middle income economies possess knowledge and expertise that can be of benefit to countries with relatively lower income levels. This is a welcome initiative, since it will stimulate cooperation among developing countries. For example, the European Union is requiring its poorer new member States to become donors as their income increases.

54. A large share of the world's poor is concentrated in the middle income countries, indicating that even they lack a self-sustaining financial capacity to fund development efforts. As a result, they would also benefit from increased ODA flows and more efficient use of aid resources.

55. Current ODA levels will not suffice to finance achievement of the targets associated with the Millennium Development Goals. In view of the difficulties hampering increases in ODA, new proposals for innovative ways of financing development and supplementing ODA flows are being devised. In general, these

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[16] In 2005 Iraq received $21.4 billion, or 32 per cent of registered official development assistance (ODA) (i.e. assigned ODA) for that year.

[17] Countries with a per capita gross national income (GNI) of $3,256 and $10,065 in 2004 classified as upper middle income countries. Countries with a per capita GNI of $826 and $3,255 were considered lower middle income countries. Countries with a per capita GNI of less than $825 were considered low income countries. The rest were least developed countries. The computations presented above are based on assigned bilateral ODA, and do not include the multilateral contributions to ODA flows or unassigned ODA flows by income levels.

[18] The share of lower middle income countries experienced a significant increase from 2004 to 2005 (39 per cent and 53 per cent of the total) due to the debt relief granted to Iraq and Nigeria.

new financing mechanisms comprise a wide variety of instruments ranging from the implementation of global taxes to global funds and private voluntary donations.[19]

56. One of the positive characteristics of these instruments is that they are double-dividend tools in the sense that, at the same time that they collect revenue, they also provide global public goods. The successful implementation of new financial instruments is premised on the fact that the bulk of the financing burden will be borne by developed countries. It also presupposes that developing countries should improve the effectiveness of their allocation and spending decisions. In this sense, aid monitoring and good governance are preconditions for the effectiveness of such assistance.

Table 4
Total ODA and its regional distribution by income grouping, 1980-2005
(Millions of United States dollars)

	1980-1985		*1986-1990*		*1991-1996*		*1996-2000*		*2001-2005*	
Total ODA[a] (1+2)	26 915.4		44 700.7		58 881.4		52 625.1		73 199.8	
1. Contribution to multilateral institutions	8 614		13 217		17 635		16 508		20 791	
2. Bilateral ODA (3+4)	18 301		31 484		41 247		36 116.9		52 409.3	
3. Unassigned	4 663		7 975		10 251		10 636		12 865	
4. Assigned by country income levels	13 638	100.0	23 509	100.0	30 996	100.0	25 481	100.0	39 544	100.0
Least developed countries	4 777	35.0	8 391	35.7	9 404	30.3	7 752	30.4	13 374	33.8
Other low-income countries	2 381	17.5	3 990	17.0	5 585	18.0	4 920	19.3	7 345	18.6
Middle-income countries[b]	6 480	47.5	11 128	47.3	16 007	51.6	12 810	50.3	18 825	47.6
Lower-middle-income countries	5 258	38.6	9 375	39.9	13 828	44.6	11 660	45.8	17 418	44.0
Upper-middle-income countries	1 222	9.0	1 752	7.5	2 180	7.0	1 149	4.5	1 407	3.6

Source: Organization for Economic Cooperation and Development (OECD), statistical database, 2007.

Notes: The disaggregation into lower- and upper-middle-income countries does not include Haiti, Nicaragua or, in some years, Honduras, as well as some of the non-independent territories.

The figures for 2005 reflect the unusually large increases in ODA to Iraq (classified as a lower-middle-income country) and Nigeria (classified as a low-income country). These increases are the result of Paris Club debt relief operations.

[a] Total ODA flows correspond to the amounts reported by donor countries. Bilateral ODA includes a portion that is not assigned by country income level. In some cases, this portion may represent more than 25 per cent of total bilateral ODA. All percentages are computed with respect to ODA flows that are assigned by income levels.

[b] Represents the sum of lower- and upper-middle-income countries.

[19] A good example of these proposals is provided by the 2004 Report of the Technical Group on Innovative Financing Mechanisms, "Action against hunger and poverty".

57. The new instruments do not rely exclusively on the unrequited transfer of funds from developed-donor to developing-recipient countries; that is, on the traditional way of providing ODA. Global taxes, for example, entail the participation of both developed and developing countries in raising revenue. Developing countries will remain recipients, but under this new scheme, both developed and middle income developing countries become donors, which would put more emphasis not only on developed-developing country relationships, but also on developing-developing country cooperation. In this context, the task of securing the necessary funding to achieve internationally agreed goals and objectives, including those contained in the Millennium Declaration, is viewed as a shared responsibility of developed and developing economies.[20]

58. Nonetheless, countries have emphasized the need to improve the coordination of donor aid, donor harmonization on strategies and aid priorities. To this end, the DAC working party on effectiveness was set up in 2003. The working party on effectiveness established five themes related to aid effectiveness, including: monitoring the Paris Declaration, public financial management, managing for development results, procurement and aid untying. In 2005 the Paris Declaration on aid effectiveness established several indicators to monitor the progress towards the 2010 targets. The 2006 survey on monitoring the Paris Declaration identified six areas of attention for policymakers: (a) improve the engagement of countries in their development process; (b) improve the use of national budgets; (c) identify priority programmes of capacity development; (d) improve the efficiency of aid giving; (e) make better and greater usage of performance assessment frameworks; and (f) countries and donors should agree on a mutual action agenda.

59. Compliance with these recommendations includes focusing aid towards improving governance in the public and private sector, creating a better infrastructural basis, and recognition of the nexus between security and development.

VI. External debt

60. The excessive accumulation of debt has been shown to be detrimental to growth and welfare. The consequences include, among others, uncertainty, increases in the cost of finance, expectation of higher taxes, crowding out of public and private investment, and the effects of debt overhang on the rates of return.[21]

61. With this in mind, the Heavily Indebted Poor Countries Initiatives have focused on reducing the burden of debt service by forgiving debt and providing a longer time frame for the repayment of the remainder. A more recent proposal, the Multilateral Debt Relief Initiative, calls for the forgiveness of the debt disbursed before the end of December 2004 by the International Monetary Fund (IMF) and the African Development Bank and the end of December 2003 by the International Development Association (IDA) of the World Bank and still outstanding at the time of qualification to heavily indebted poor countries having reached the completion

[20] It is worth noting that some middle income developing economies, including China, India, the Republic of Korea and Turkey, and some oil-producing countries provide some ODA flows, albeit on a minor scale (4 per cent of the total for 2005).

[21] See R. Blavy, *Public Debt and Productivity: The Difficult Quest for Growth in Jamaica*, IMF Working Paper, WP/06/235 (October 2006).

point. Non-heavily indebted poor countries whose income per capita is below $380 should also qualify for IMF debt relief. All the countries that have entered the post-completion stage have qualified from relief of the Multilateral Debt Relief Initiative provided by IDA and the African Development Bank.

62. The Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative are expected to lower the debt stocks of the 29 post decision point heavily indebted poor countries by 90 per cent. It is also expected that their debt ratios will decline by more than half.

63. The available empirical evidence shows that in the periods 1990-1995 and 2001-2005 the debt stock declined from 150 per cent to 107 per cent of GDP for all heavily indebted poor countries. The debt burden of all heavily indebted poor countries declined by roughly 3 percentage points of GNI between 1990-1995 and 1996-2000 (the latter period covers the first four years following the launch of the first Heavily Indebted Poor Countries Initiative). Between 1999 and 2005, the enhanced Heavily Indebted Poor Countries Initiative lowered debt service by approximately 1 percentage point of GDP (see table 5).

64. In addition, the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative have widened the scope of the initiative including a greater number of beneficiary countries. Moreover, debt relief initiatives have become an important means to transfer resources to the poorer countries. The latest data available show that the transfer of resources through this channel increased from $9 billion to $18 billion between 1999 and 2004.[22]

65. Finally, developing countries have also joined in the debt relief initiative as donors. As things stand, there are currently 57 developing countries participating in non-Paris Club debt relief initiatives. These include 12 low income countries and 19 lower middle income countries. The rest belong mostly to the upper middle income group.

66. Among these, only six developing countries (upper middle income and high income countries) have fully delivered thus far on their debt relief commitments. Developing country debt relief initiatives are also concentrated on a few debtors (Nicaragua, Mauritania, Mozambique and the United Republic of Tanzania). These four countries account for 42 per cent, 4 per cent, 8 per cent and 6 per cent, respectively, of developing country debt relief initiatives. The rest is divided among 25 countries.

67. It should be pointed out, however, that the reductions in the debt burden have had a low impact, given the fact that the Heavily Indebted Poor Countries Initiative was initially applied to debt levels that were very high by international standards and extremely difficult, if not impossible, to repay. In addition, there is a wide disparity in the degree to which heavily indebted poor countries have managed to reduce their debt stock and debt service ratios.

[22] World Bank, IEG Reach, "Debt relief for the poorest: an evaluation update of the HIPC Initiative" (April 2006).

Table 5
Debt stock, debt service and grants as percentages of GNI, 1980-2005
Heavily Indebted Poor Countries
(Averages)

	1980-1989	*1990-1995*	*1996-2000*	*2001-2005*	*2005*
Debt stock	95.2	149.8	125.2	107.5	96.1
Debt service	6.2	8.3	5.3	4.0	3.0
Grants	6.1	14.0	9.3	11.4	10.7

Source: World Bank, *Global Development Finance* (GDF) database, 2007.

68. Finally, a distinction should be made between debt reduction and debt sustainability and to acknowledge that debt relief is not a sufficient condition for debt sustainability. Indeed, as things stand, the debt situation has deteriorated in 11 out of 13 post-completion countries and in 8 of these countries the debt ratios have exceeded heavily indebted poor countries thresholds.[6]

VII. Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development

69. The characteristics of financial globalization include: (a) an increase in countries' external exposure (cross-border transactions in bonds and equities rose from 9 per cent in 1980 to 213 per cent in 1997 in the United States; from 8 per cent to 96 per cent in Japan; from 7 per cent to 253 per cent in Germany; and from 5 per cent to 313 per cent in France); (b) a blurred dividing line between financial intermediaries and financial products; (c) a shift in the focus of the international financial system from banking to markets (exponential growth of the derivatives market); (d) a significant increase in volume and average size of financial transactions, which has led to a surge in the volume of domestic and international payments; and (e) expanded scope of institutional investors.[23]

70. Financial globalization underscores the tighter real and financial linkages across countries and regions. These linkages can facilitate the transmission of information, knowledge and positive spillovers and contribute to increase productivity, welfare and growth. They can also become the linchpin for the transmission of shocks, contagion and co-movement.

71. Closer integration and the current world situation have thus changed the space for national policy actions and, at the same time, have highlighted the need to coordinate policy initiatives and enhance current regulatory mechanisms.

72. Among regulatory initiatives, countries have begun to implement preparations for a revised capital adequacy framework. The Basel II capital adequacy framework (November 2005) seeks to improve the regulatory capacity of national banking institutions and their capacity to manage risks. To this end, it seeks to provide a

[23] A. Lamfalussy, *Financial Crises in Emerging Markets* (New Haven, Yale University Press, 2000).

forward-looking framework and to align the regulatory capital requirements more closely to the underlying risks that banks face. It is expected that Basel II will be implemented by the end of 2007.

73. The IMF member countries also agreed in the 2006 spring meetings to establish a new process of multilateral consultations on issues of systemic importance. The first consultation, involving China, the countries of the euro area, Japan and the United States of America, focused on the issue of global imbalances that pose a significant challenge to the international management of macroeconomic and financial policy.

74. Progress has also been made in some areas regarding the inclusion of the voice and participation of developing countries in international decision-making institutions. Developing countries are present and active in the current Doha trade negotiating round. There are several different groups, including the Group of Twenty, the Group of Thirty-three, the group of developing countries known as NAMA 11, and the Least Developed Countries Group, reflecting the interests of developing countries.

75. As well, in September 2006, the IMF Board of Governors adopted a resolution on quota and voice reform. The two main goals of the reform are to ensure that the distribution of quotas reflects the economic weight and role of member States in the global economy, and to enhance the voice of low income countries. There is general agreement that the reform of IMF governance is of utmost importance, since the issue of voice and representation is at the heart of the Fund's credibility as an international institution overseeing stability of the global system. A redistribution of power within the IMF is also consistent with the changing mission of this organization. Lending, whereby donors might legitimately expect extra influence, is declining, and more general management and coordination of the international monetary system, whereby all countries should have an equal voice, is increasing.

76. Building effective regional institutions is key to ensure the coherence, coordination and cooperation of regional institutions in promoting sustainable and equitable economic policies. The strengthening and the independence and competence of regional and global institutions will serve to broaden governance on critical issues, rather than maintaining over-reliance on a narrow set of countries.

VIII. Staying engaged

77. In its resolution 2006/45, the Economic and Social Council requested, inter alia, the President of the Council, with the support of the Financing for Development Office of the Secretariat, to initiate consultations, including with all major institutional stakeholders, on how to enhance the impact of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development. The high-level meeting will address four topics, including: (a) good governance at all levels; (b) voice and participation of developing countries in international economic decision-making, including the Bretton Woods institutions; (c) realizing the Doha Development Agenda: effective use of trade and investment policies; and (d) aid effectiveness and innovative financing for development. It is very important to strengthen consultations on South-South cooperation, regional and subregional

financial cooperation, particularly regional reserve fund schemes, and development banks.

78. **Regional commissions have taken a leading role in organizing regional activities in follow-up to the International Conference on Financing for Development (Monterrey, 2002). These have increased awareness among member States of the purpose and importance of the aims promoted by the Monterrey Consensus and of the need to adopt policies and regulations for the sustainable development of the developing countries, including the promotion of development finance to meet the internationally agreed development goals, including the Millennium Development Goals.**